

Jain Irrigation Systems Limited
June 12, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings¹	Rating Action
Long-term Bank Facilities – Term loan	783.20	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long term bank facilities – Working capital	1,650.00	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short-term Bank Facilities	2,220.00	CARE A4 (A Four)	Revised from CARE A3+ (A Three Plus)
Total Facilities	4,653.20 (Rupees Four Thousand Six Hundred Fifty Three crore and Twenty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Jain Irrigation Systems Limited (JISL) takes into consideration the stress in liquidity position of the company due to delay in realization of debtors. The working capital borrowings of the company on consolidated level have increased from Rs. 1498 crore as on March 31st, 2018 to Rs. 1917 crore as on March 31st, 2019. There were also frequent instances of overdrawals in the company's working capital limits.

The revision also factors in a moderate operational performance of the company in FY19. The ratings are further tempered by the company's heavy dependence on the agriculture sector and thereby its exposure to government policies, volatility in the prices of raw materials and the increasing debt levels a result of its various debt-funded expansions and growing working capital requirements.

The ratings, however, continue to factor in promoters extensive industry experience, well-diversified product offering and market reach along-with a widespread distribution network domestically and globally.

Deleveraging of the consolidated balance sheet, improvement in the liquidity position and maintenance of JISL's operating margins shall remain the key rating sensitivities. Also, any further debt funded acquisitions or increasing in working capital borrowings, leading to an increase in the overall debt levels will remain a key rating monitorable.

Detailed description of the key rating drivers**Key Rating Weaknesses****Increase in debt levels from FY18 to FY19**

The total outstanding consolidated debt of the company (excluding LC acceptances) has increased significantly from Rs. 4468.15 crore as on March 31, 2018 to Rs. 5246.96 crore as on March 31, 2019. The debt was also much higher than what had been envisaged. The increase in debt was majorly on account of increase in the working capital borrowings. The company also plans to deleverage its balance sheet at consolidated level in the next 1.5-2 years by monetizing some of its assets. Deleveraging of the consolidated balance sheet will be crucial from the credit perspective.

Stretched liquidity position

As a result of elongated collection period in the MIS segment, JISL has been facing a severe strain on its liquidity position. There has been a steep rise in the utilization levels in the last few months owing to the increased requirement of working capital to meet the business requirement. There were also frequent instances of overdrawals in the company's working capital limits. Although the company has been undertaking several measures to improve its receivables position, it has been unable to bring about a significant change in the same.

Dependence on the seasonal agriculture sector and government policies

The company's performance is dependent on the seasonality in agriculture sector. The manufacturing of agro-processed products varies over the course of each year, reflecting seasonal changes in the availability of raw materials. MIS and agro-processing are subject to risks associated with the vagaries of nature, seasonality and government policies, leading to high working capital financing requirements during seasons. However, the Government of India's programme focused on increasing irrigation, and farmers' income and production are expected to boost demand for pipes and fittings.

Susceptibility of profitability to volatility in raw material prices and risk related to foreign exchange fluctuations

The company is exposed to fluctuations in prices of polymers, resins, fruits and vegetables products which are used by it as raw materials. These products are commodities whose prices are determined by the supply and demand in the Indian and international markets for those products and by the price of petroleum. The company's operations involve foreign exchange transactions including import, export as well as financing and investment transactions and are exposed to foreign exchange risk arising from foreign currency transactions. The net exposure to foreign currency risk is hedged partially using derivatives and partially against exports.

Key Rating Strengths

Experienced promoters

JISL, founded by Late Mr. Bhavarlal Jain, is the pioneer of micro irrigation in India. Currently, Late Mr. Bhavarlal Jain's sons Mr. Ashok Jain (Chairman), Mr. Anil Jain (Managing Director), Mr. Ajit Jain (Joint Managing Director) and Mr. Atul Jain (Joint Managing Director) are managing overall operations of the group and are assisted by professionals, agricultural scientists, engineers and technicians managing various business segments.

Well-diversified product portfolio

On a consolidated basis, the products and services offered by the company can be divided into four major segments, viz., the Hi-tech Agri Input Products (which includes revenues from MIS, solar agri pump, integrated irrigation projects and tissue culture plants), the plastic division (PVC piping products, PE piping products, piping projects and plastic sheets), the agro processing division (fruits, onion products and bio-gas) and others (solar thermal products, solar photovoltaic grid and bio-gas products). Diversified portfolio mitigates any product concentration risk.

Liquidity

Covered under **Key Rating Weaknesses** section

Analytical approach: Consolidated

CARE has analyzed JISL's credit profile by considering the consolidated financial statements of the company owing to financial and operational linkages between the parent and subsidiaries. The details of the subsidiaries, associate and joint venture which have been consolidated as on March 31, 2018 are given in **Annexure 3**.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Established in the year 1986, JISL operates in diverse segments of the agri-business and also offers products in renewable energy segment. The micro-irrigation systems (MIS) (drip and sprinkler) is the flagship product of the company wherein JISL offers end-to-end water solution projects. The company also manufactures polyethylene (PE) pipes, polyvinyl chloride (PVC) pipes and plastic sheets. Other business segment of the company includes, agro-processing (dehydrated onions & vegetables, processed fruits, mango pulp and Bio Gas), tissue culture and solar systems (solar water heating systems, solar panels and solar water pumps).

The company (including subsidiaries) has 33 manufacturing bases with 11 manufacturing facilities and 5 demo and research development farms in India and 17 plants located across four continents.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)	FY19#
Total operating income	6791.81	8014.07	8848.33
PBILDT	970.77	1057.72	1197.01
PAT	176.24	221.29	254.22
Overall gearing (times)	1.09	1.17	1.31*
Interest coverage (times)	2.11	2.21	2.33

A: Audited

#as per exchange disclosure of the company

*without LC acceptance

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 2022	752.20	CARE BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	2100.00	CARE A4
Fund-based - LT-Cash Credit	-	-	-	1650.00	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	July 2022	31.00	CARE BB; Stable
Fund-based - ST-Term loan	-	-	-	120.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (19-Apr-16)
2.	Fund-based - LT-Term Loan	LT	752.20	CARE BB; Stable	1)CARE BBB+; Stable (05-Apr-19)	1)CARE A-; Stable (28-Sep-18) 2)CARE A-; Stable (05-Apr-18)	1)CARE A-; Stable (16-Jun-17)	1)CARE BBB+; Stable (17-Feb-17) 2)CARE BBB- (19-Apr-16)
3.	Non-fund-based - ST-BG/LC	ST	2100.00	CARE A4	1)CARE A3+ (05-Apr-19)	1)CARE A2 (28-Sep-18) 2)CARE A2 (05-Apr-18)	1)CARE A2 (16-Jun-17)	1)CARE A3+ (17-Feb-17) 2)CARE A3 (19-Apr-16)
4.	Fund-based - LT-Cash Credit	LT	1650.00	CARE BB; Stable	1)CARE BBB+; Stable (05-Apr-19)	1)CARE A-; Stable (28-Sep-18) 2)CARE A-; Stable (05-Apr-18)	1)CARE A-; Stable (16-Jun-17)	1)CARE BBB+; Stable (17-Feb-17) 2)CARE BBB- (19-Apr-16)
5.	Fund-based - LT-Term Loan	LT	31.00	CARE BB; Stable	1)CARE BBB+; Stable (05-Apr-19)	1)CARE A-; Stable (28-Sep-18) 2)CARE A-; Stable (05-Apr-18)	1)CARE A-; Stable (16-Jun-17)	1)CARE BBB+; Stable (17-Feb-17) 2)CARE BBB- (19-Apr-16)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
6.	Fund-based - ST-Term loan	ST	120.00	CARE A4	1) CARE A3+ (05-Apr-19)	-	-	-

Annexure -3: Details of the subsidiaries, associates and joint venture which have been consolidated:

Group entities	Country of Incorporation	% ownership of JISL as on March 31, 2018
<u>Subsidiaries</u>		
JISL Overseas Limited	Mauritius	100%
Jain International Trading B.V.	Netherlands	100%
Jain Overseas B.V	Netherlands	100%
Jain (Israel) B.V	Netherlands	100%
JISL Global SA	Switzerland	100%
JISL System SA	Switzerland	100%
Jain America Foods Inc	USA	100%
Jain America Holdings Inc.	USA	100%
Jain (Europe) Ltd.	UK	100%
Jain Irrigation Holding Corp., (Consolidated)	USA	100%
Jain Irrigation Inc., (Consolidated)	USA	100%
Cascade Specialities Inc.	USA	100%
Naandan Jain Irrigation Ltd, Israel	Israel	100%
The Machines Yvonand S.A.	Switzerland	100%
Jain International Foods Ltd.	UK	100%
Sleaford Quality Foods Ltd.	UK	100%
Jain Mena DMCC	Dubai	100%
Jain Distribution holdings Inc. (Consolidated)	USA	100%
Jain Farm Fresh Holdings SPRL,(Consolidated)	Belgium	100%
ProTool AG	Switzerland	75%
Ex-Cel Plastics Ltd	Ireland	100%
Gavish Control Systems Ltd	Israel	51%
Excel Plastics Piping Systems SAS	France	100%
Driptech India Pvt. Ltd.	India	75%
Jain Farm Fresh Foods Ltd. (JFFFL)	India	89%
Jain Processed Foods Trading & Investments Private Ltd	India	100%
<u>Joint Venture</u>		
Dansystems S.A	Chile	50%
<u>Associate</u>		
Sustainable Agro-Commercial Finance Ltd	India	49%

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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